

**CITY AND COUNTY OF MIDLAND JOINT BUILDING  
AUTHORITY**

**Annual Financial Statement**

**and**

**Auditor's Report**

**For the year ended**

**June 30, 2004**

**Board of Directors**

**Herbert Doan - Chairman**

**Bridgette Gransden - Secretary**

**Karl Tomion - Treasurer**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City and County of Midland Joint Building Authority</u>	County <u>Midland</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>July 27, 2004</u>	Date Accountant Report Submitted To State: <u>May 31, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature  			

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
ANNUAL FINANCIAL STATEMENT  
FOR THE YEAR ENDED  
JUNE 30, 2004

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## Independent Auditor's Report

To the Board of Directors  
City and County of Midland  
Joint Building Authority

We have audited the accompanying basic financial statements of the City and County of Midland Joint Building Authority as of June 30, 2004 and 2003 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City and County of Midland Joint Building Authority management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic purpose financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Midland Joint Building Authority as of June 30, 2004 and 2003 and the change in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

July 27, 2004

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# CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

## Using This Annual Report

This annual report consists of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, the Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

## Financial Overview

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in 1993 to finance, construct, and operate the Midland Law Enforcement Center. The Authority's income primarily comes from rental income from its two tenants: The City of Midland Police Department (66.99%), and the Midland County Sheriff Department (33.01%).

The following table shows the major components of net assets as of June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Current	\$ 281,444	\$ 287,878
Noncurrent and restricted	<u>2,510,556</u>	<u>2,736,698</u>
Total assets	<u>2,792,000</u>	<u>3,024,576</u>
<b>LIABILITIES</b>		
Liabilities		
Current	264,463	247,894
Noncurrent	<u>2,180,650</u>	<u>2,408,350</u>
Total liabilities	<u>2,445,113</u>	<u>2,656,244</u>
<b>NET ASSETS</b>		
Restricted	329,906	328,348
Unrestricted	<u>16,981</u>	<u>39,984</u>
Total net assets	<u><u>\$ 346,887</u></u>	<u><u>\$ 368,332</u></u>

The 2004 balance of net assets of \$346,887 is allocated \$232,379 to the City of Midland, and \$114,508 to the County of Midland. The same allocation for 2003 would be \$246,746 and \$103,586, respectively.

The entire Statement of Net Assets can be found on page 4 of this report, which will provide a greater level of detail than shown in the above table.

During the year ended June 30, 2004, net assets decreased by \$21,445. This was a planned decrease to utilize excess funds that had accumulated through the previous year. The following table summarizes the change in net assets for the years ending June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Revenue		
Rental income	\$ 254,208	\$ 281,313
Finance income from long-term lease	86,188	140,088
Other	6,769	9,151
Total revenue	<u>347,165</u>	<u>430,552</u>
Expenses		
Building and grounds maintenance	112,811	81,060
Utilities	92,974	91,140
Interest on bonds	86,188	140,088
Other	76,637	62,016
Total expenses	<u>368,610</u>	<u>374,304</u>
Change in net assets	(21,445)	56,248
Net assets - beginning	<u>368,332</u>	<u>312,084</u>
Net assets - ending	<u>\$ 346,887</u>	<u>\$ 368,332</u>

The entire Statement of Revenues, Expenses, and Changes in Net Assets is provided on page 5 of this report.

#### **Contacting the Authority's Management**

This financial report is intended to provide the City of Midland and the County of Midland with a general overview of the Authority's finances, and to show the Authority's accountability for the money it receives from its two tenants. If you have questions about this report, the Authority may be contacted for additional information.

**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
Cash	\$ 51,444	\$ 57,878
Lease Receivable, net of unearned finance income of \$442,750 in 2004 and \$528,938 in 2003 - current	230,000	230,000
- noncurrent	2,180,650	2,408,350
Restricted Assets (for construction and major maintenance):		
Cash	329,906	328,348
Total Assets	\$ 2,792,000	\$ 3,024,576
 <b>LIABILITIES</b>		
Accounts Payable	\$ 24,758	\$ 17,894
Deferred Rent Revenue	9,705	-
Bonds Payable - net of unamortized issuance discount of \$24,350 in 2004 and \$26,650 in 2003 - due within one year	230,000	230,000
- due after one year	2,180,650	2,408,350
Total Liabilities	2,445,113	2,656,244
 <b>NET ASSETS</b>		
Restricted for construction	103,348	103,348
Restricted for major maintenance	226,558	225,000
Unrestricted	16,981	39,984
Total Net Assets	\$ 346,887	\$ 368,332

See Notes to Financial Statements

**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30**

	<u>2004</u>	<u>2003</u>
<b>REVENUE</b>		
Rental Income	\$ 254,208	\$ 281,313
Finance Income from Long-Term Lease	86,188	140,088
Interest Income	1,492	9,151
Other Income	<u>5,277</u>	<u>-</u>
Total Revenue	<u>347,165</u>	<u>430,552</u>
 <b>EXPENSES</b>		
Audit and Legal	3,450	3,400
Insurance	18,556	17,803
Interest on Bonds	86,188	140,088
Utilities	92,974	91,140
Building and Grounds Maintenance	112,811	81,060
Equipment Maintenance	54,131	40,813
Bond Agent Fees	<u>500</u>	<u>-</u>
Total Expenses	<u>368,610</u>	<u>374,304</u>
 <b>CHANGE IN NET ASSETS</b>	 (21,445)	 56,248
 <b>NET ASSETS - Beginning of Year</b>	 <u>368,332</u>	 <u>312,084</u>
 <b>NET ASSETS - End of Year</b>	 <u><u>\$ 346,887</u></u>	 <u><u>\$ 368,332</u></u>

See Notes to Financial Statements



**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Lease Contracts	\$ 254,208	\$ 281,313
Payments to Suppliers for Goods and Services	(265,853)	(235,773)
Other Revenue	5,277	-
Net Cash Provided By(Used In) Operating Activities	<u>(6,368)</u>	<u>45,540</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Cash Received from Capital Lease Contract	313,888	313,337
Principal and Interest Payment on Bonds	<u>(313,888)</u>	<u>(313,337)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>-</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>		
Interest Received on Investments	<u>1,492</u>	<u>9,151</u>
<b>Increase(Decrease) in Cash</b>	(4,876)	54,691
<b>Cash - Beginning of Year</b>	<u>386,226</u>	<u>331,535</u>
<b>Cash - End of Year</b>	<u><u>\$ 381,350</u></u>	<u><u>\$ 386,226</u></u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>		
Operating Income(Loss)	\$ (22,937)	\$ 47,097
Increase(Decrease) in Current Assets and Liabilities		
Accounts Payable	6,864	(1,557)
Deferred Rent Revenue	<u>9,705</u>	<u>-</u>
Net Cash Provided By(Used In) Operating Activities	<u><u>\$ (6,368)</u></u>	<u><u>\$ 45,540</u></u>
<b>Balance Sheet Classification of Cash</b>		
Unrestricted Cash	\$ 51,444	\$ 57,878
Restricted Cash	<u>329,906</u>	<u>328,348</u>
	<u><u>\$ 381,350</u></u>	<u><u>\$ 386,226</u></u>

See Notes to Financial Statements

**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 and 2003**

**NOTE 1 - REPORTING ENTITY**

The City and County of Midland Joint Building Authority (Authority) was incorporated in 1993 to finance, construct and operate the Midland Law Enforcement Center. The Midland Law Enforcement Center is owned by the Authority and is leased to the City of Midland Police Department and the Midland County Sheriff Department. The Authority is governed by a three person board with the City and County each appointing one member and with the third member being mutually appointed.

The financial operations of the Authority are presented as a joint venture in the annual financial statements of both the City of Midland and the County of Midland. In accordance with generally accepted accounting principles, there are no component units included in these financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental building authorities. The following is a summary of the more significant policies:

**A. Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments, issued in June 1999.

**B. Fixed Assets**

The Authority has lease contracts with the City of Midland and the County of Midland covering the Midland Law Enforcement Center, which was constructed by the Authority (see Note 4). Since these leases represent financing transactions, the Authority has recorded the contracts as a receivable in lieu of recording the Law Enforcement Center facilities as assets.

**C. Basis of Accounting**

The Authority uses the accrual method of accounting except for interest on the lease contracts receivable and bonds payable, which are recorded as revenue and expense on their due dates. The construction costs of the Law Enforcement Center were

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 and 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

capitalized as incurred. At the time the facility was complete and turned over to the City and County, those costs were reclassified based on a capital lease signed by the City and County and recorded at the net present value of future lease contract payments. Any additional expenses relating to construction and not provided for at the time the facility was completed are expensed as incurred.

D. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Deposits

	<u>2004</u>	<u>2003</u>
Net Carrying Amount	\$ 381,350	\$ 386,226
Bank Balance	381,350	389,223
Federal Depository Insurance	100,000	100,000
Uninsured/Uncollateralized	381,350	289,223

B. Investments

The Authority's investment policies are governed by State statutes. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements.

The Authority held no investments at June 30, 2004 and 2003.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 and 2003

**NOTE 4 - LEASE CONTRACTS AND RESTRICTED ASSETS**

Noncancellable long-term leases are in effect with both the City of Midland and the County of Midland. Operating leases provide for payment of rents amounting to 64.8 percent of the Authority's annual operating costs by the City and 35.2 percent by the County. The City and County are also obligated for 66.99 percent and 33.01 percent, respectively, of the Authority's debt service costs.

The leases covering debt service costs are financing transactions under which the Authority issued general obligation limited tax bonds for the purpose of constructing the Midland Law Enforcement Center. Rental payments under the lease agreements, which are pledged as collateral for the bonds, have been set at the amount estimated as necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the facility will be turned over to the City and County.

Under the agreements, bond proceeds are restricted for the purpose of construction or making bond principal and interest payments. In addition, certain amounts are required to be set aside in a reserve for major maintenance, the use of which is restricted for the purpose of financing repairs to the major structural and system components of the Law Enforcement Center.

Details of the lease contracts covering debt service costs that the Authority has entered into with the City of Midland and the County of Midland are as follows:

	<u>2004</u>	<u>2003</u>
Lease contract receivable, interest included	<u>\$ 2,853,400</u>	<u>\$ 3,167,288</u>
Net receivable, on balance sheet	<u>\$ 2,410,650</u>	<u>\$ 2,638,350</u>
Interest rate used for lease contract	<u>same as bonds</u>	<u>same as bonds</u>
Assets restricted for:		
Construction	\$ 103,348	\$ 103,348
Major Maintenance	<u>226,558</u>	<u>225,000</u>
Total	<u>\$ 329,906</u>	<u>\$ 328,348</u>

**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 and 2003**

**NOTE 5 - BONDS PAYABLE**

The Authority's 1994 Bonds were issued to finance construction of the Midland Law Enforcement Center. In March 2003, the 1994 Bonds with principal balance remaining of \$2,550,000 and an average interest rate of 6% were refunded for \$2,665,000 in new bonds with a 3.4415% average interest rate. Bond principal and interest payments are included in the tenants rental rate and are secured by the full faith and credit of both Municipalities. The bonds were sold at a 1% discount, which will be amortized over the ten-year life of the bonds. The payment schedule for the bonds is as follows:

<u>Fiscal Year End June 30</u>	<u>Principal Maturing May 1</u>	<u>Interest Rate</u>	<u>Interest Due Nov 1</u>	<u>Interest Due May 1</u>	<u>Total Principal and Interest</u>
2005	230,000	2.00	36,204	36,204	302,408
2006	250,000	2.00	33,904	33,904	317,808
2007	245,000	2.50	31,404	31,404	307,808
2008	265,000	2.60	28,341	28,341	321,682
2009	260,000	3.00	24,896	24,896	309,792
2010	280,000	3.25	20,996	20,996	321,992
2011	300,000	3.50	16,446	16,446	332,892
2012	295,000	3.65	11,196	11,196	317,392
2013	310,000	3.75	5,813	5,813	321,626
	<u>\$2,435,000</u>		<u>\$209,200</u>	<u>\$209,200</u>	<u>\$2,853,400</u>

**Note 6 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts and errors and omissions. The Authority participates in the Michigan Municipal League Property and Liability Pool for claims relating to property and liability. The Pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Authority's maximum deductible for property and liability coverage is \$1,000 per occurrence.